

Fiscal Note

Fiscal Services Division



HF 226 – Geothermal Energy System Tax Credit (LSB1664YH)
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Fiscal Note Version – New

Description

House File 226 revises the current residential Geothermal Heat Pump Tax Credit by increasing the tax credit percentage, expanding credit availability to corporate taxpayers, and changing the name to the Geothermal Energy System Tax Credit. The Bill takes effect on enactment and applies retroactively to tax year 2015 and after.

Background

Under current Iowa law, the Geothermal Heat Pump Tax Credit is equal to 20.0% of the federal credit available for residential installations. That federal credit is equal to 30.0% of qualified installation costs. Therefore, the current Iowa credit is equal to 6.0% of qualified installation costs. The current Iowa credit is not refundable but unused portions may be carried forward for up to 10 tax years. The federal credit is set to expire December 31, 2016.

Under current federal law, there is a corporate investment tax credit available equal to 10.0% of qualified geothermal installation expenses at business locations. Iowa does not currently have a corporate tax credit based on the federal business investment tax credit for geothermal installations. The federal credit for geothermal heat installations expires December 31, 2016. A companion federal credit for geothermal installations that produce electricity does not expire. The corporate tax credit proposed in this Bill will apply to both a geothermal heat installation and a geothermal electric generation installation.

Assumptions

- Given the current expiration date for the federal tax credit of December 31, 2016, the current and proposed credit for residential installations will cease to be available for residential geothermal installations after that date.
- Under current law and based on tax year 2013 tax credit claims, tax credit claims for tax year 2015 and tax year 2016 are projected to be \$2.0 million and \$2.1 million, respectively.
- For residential situations, the combined federal and state tax credit under current law is equal to 36.0% of installation costs. As proposed in this Bill, the combined tax credit will equal 48.0%. This increase in the tax subsidy is expected to increase residential installations in calendar year 2015 by 5.0% compared to current law, and by 20.0% for calendar year 2016. Projected claims for tax year 2015 and tax year 2016 are projected to equal \$6.3 million and \$7.6 million, respectively.
- This Bill includes a new Iowa credit for business geothermal installations. The new credit is tied to a federal credit for geothermal heat and electricity installations. Based on the federal tax credit claims of Iowa companies under those geothermal investment tax credit programs, claims for the proposed Iowa 60.0% credit are projected to total \$228,000 for tax year 2015 and \$270,000 for tax year 2016. Those credit claims are all expected to be for heat installations. In addition, an assumption is made that no claims will be made for Iowa installations of geothermal systems that generate electricity.
- The Iowa geothermal tax credits for individuals and for corporations are not refundable or transferable but may be carried forward to future tax years. Tax credits that are not refundable or transferable take several tax years to redeem. It is assumed that for tax

credits earned in a calendar year, the first redemptions take place in the next fiscal year and that it will take an additional five years for all credits from one year to be fully redeemed.

Table 1 below provides the assumed tax credit redemption pattern.

- Nonrefundable individual income tax credits reduce the tax yield of the local option income surtax for schools. Statewide, the average surcharge tax rate is equal to 3.2% of General Fund individual income tax revenue, net of refunds.

<p>Table 1 Assumed Geothermal Energy Tax Credit Redemption Pattern</p>			
	Individual Income Tax Credits - Current Law	Individual Income Tax Credits - Proposed Law	Corporate Tax Credits - Proposed Law
Tax Year Earned	56.0%	48.0%	52.0%
Tax Year Earned +1	30.0%	25.0%	17.0%
Tax Year Earned +2	9.0%	9.0%	13.0%
Tax Year Earned +3	5.0%	6.0%	8.0%
Tax Year Earned +4	0.0%	6.0%	5.0%
Tax Year Earned +5	0.0%	6.0%	5.0%
Total % Redeemed	100.0%	100.0%	100.0%

Fiscal Impact

The geothermal installation tax credit modifications and expansions contained in this Bill are projected to decrease net General Fund revenue by \$10.3 million over seven fiscal years, beginning in FY 2016. The projected impact by fiscal year is presented in the right-hand column of **Table 2**.

<p>Table 2 Net General Fund Fiscal Impact Projection</p>				
	Projected Tax Credit Impact Under Current Law	Individual Income Tax - Proposed Law	Corporate Income Tax - Proposed Law	General Fund Revenue Reduction
FY 2016	\$ 1,120,000	\$ 3,024,000	\$ 118,560	\$ 2,022,560
FY 2017	1,776,000	5,203,800	179,160	3,606,960
FY 2018	810,000	2,457,000	75,540	1,722,540
FY 2019	289,000	1,058,400	53,340	822,740
FY 2020	105,000	831,600	33,000	759,600
FY 2021	-	831,600	24,900	856,500
FY 2022	-	453,600	13,500	467,100
Total	\$ 4,100,000	\$ 13,860,000	\$ 498,000	\$ 10,258,000

In addition, the individual income tax reduction will result in reduced tax revenue generated by the local option income surtax for schools. Surtax revenue is projected to decrease by the following amounts:

- FY 2016 = \$96,000
- FY 2017 = \$167,000
- FY 2018 = \$79,000
- FY 2019 through FY 2022 = \$25,000 each year

The federal tax credits for geothermal heat installations are set to expire December 31, 2016. Should the U.S. Congress extend the federal credits, the Iowa credit will extend automatically. This will result in additional fiscal impact in future fiscal years.

Also, the federal credit for business geothermal electricity installations does not expire. If such a facility is constructed in Iowa, the tax credit in this Bill will provide a corporate tax credit equal to 6.0% of the installation cost.

Sources

Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
